

## OUTGOING MESSAGE

Approved For Release 2004/11/30 : CIA-RDP78S01932A000100240055-2

25X1

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CLASSIFICATION

CIA/OCI

/WHIZWH 740515

MESSAGE HANDLING INDICATOR

DATE-TIME GROUP

25X1

CIA/RHSS

SOURCE REF:

ROUTING	1	4	7	10
	2	5	8	11
	3	6	9	12

25X1

ITEM NO: 251-2

25X1

SUBJECT: CANADA--A LOOK TOWARD THE ELECTION

PRIME MINISTER TRUDEAU'S MINORITY ADMINISTRATION FELL ON 8 MAY WHEN HIS NEW DEMOCRATIC ALLIES JOINED WITH THE PROGRESSIVE CONSERVATIVES TO REJECT THE GOVERNMENT'S BUDGET PROPOSALS. FOLLOWING HIS DEFEAT, TRUDEAU ASKED GOVERNOR-GENERAL LÉGER TO DISSOLVE PARLIAMENT AND SET ELECTIONS FOR 3 JULY.

POLITICAL TENSION HAD BEEN BUILDING IN OTTAWA DURING THE PREVIOUS MONTH AS TORY MP'S HAMMERED AWAY AT TRUDEAU'S ECONOMIC POLICIES. APRIL WAS A BAD MONTH FOR THE LIBERALS: NEW STATISTICS SHOWED ANOTHER RISE IN THE COST-OF-LIVING; THE PRIME LENDING AND HOME MORTGAGE RATES INCREASED; AND WIDESPREAD LABOR TROUBLES WERE POLARIZED ON THE GOVERNMENT'S INABILITY TO CONTROL INFLATION. THROUGHOUT THIS PERIOD THE LIBERALS APPEARED TO BE FLOUNDERING.

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ABOUT WITHOUT ANY SERIOUS DIRECTION. AT ONE POINT TRUDEAU EVEN GAVE HIS CRITICS SOME ADDITIONAL AMMUNITION BY TAKING A WEEK'S VACATION--A DEVELOPMENT FEW TORIES OVERLOOKED IN CHARGING THAT THE GOVERNMENT WAS LEADERLESS.

THE LIBERAL-NEW DEMOCRATIC ALLIANCE HAD BEEN SHOWING SIGNS OF STRAIN SINCE THE BEGINNING OF THE YEAR. IN THE FACE OF THE INCREASINGLY EFFECTIVE ATTACK ON THE GOVERNMENT, THE NEW DEMOCRATS REASSESSED THEIR POSITION AND DECIDED IT WAS TIME TO DUMP THE PRIME MINISTER. MANY NEW DEMOCRATIC MPS WERE CONCERNED THAT CONTINUED ASSOCIATION WITH TRUDEAU'S POLICIES HAD BECOME MORE OF A LIABILITY THAN AN ASSET, PARTICULARLY AMONG THE PARTY'S TRADITIONAL SUPPORTERS (TRADE UNIONISTS, FARMERS, AND ACADEMICS).

IF THE TONE OF THE BUDGET DEBATE IS ANY INDICATION, THE ELECTION CAMPAIGN IS LIKELY TO BE HARD-HITTING. THE DOMINANT ISSUE WILL BE INFLATION: THE COST-OF-LIVING ROSE 7.3% IN 1978 AND IS RUNNING AT ABOUT 13% THIS YEAR.

2. IN THE CAMPAIGN, THE LIBERALS WILL STRESS THEIR BUDGET PROPOSALS, WHICH ARE AIMED AT INCREASING CORPORATE TAXES AND PROVIDING HARD-

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PRESSED CONSUMERS WITH SOME RELIEF FROM HIGHER PRICES. THE CONSERVATIVES ARE COMMITTED TO INSTITUTING TEMPORARY WAGE AND PRICE CONTROLS, TO BE FOLLOWED BY A COMPREHENSIVE PROGRAM TO COMBAT INFLATION. THE NEW DEMOCRATS WILL ADVOCATE, AMONG OTHER THINGS, AN EXCESS PROFITS TAX, SPECIAL REDUCED HOME MORTGAGE RATES FOR MODERATE TO LOW INCOME FAMILIES, AND A TWO-PRICE SYSTEM--DOMESTIC AND INTERNATIONAL--FOR BASIC COMMODITIES PRODUCED IN CANADA.

THE COURSE OF CANADIAN-US RELATIONS SHOULD NOT BE AFFLICTED BY THE RESULTS OF THE ELECTION. ALL PARTIES FAVOR--TO ONE DEGREE OR ANOTHER--OTTAWA'S PRESENT POLICY OF TRYING TO ACHIEVE GREATER INDEPENDENCE FROM THE US.

AT THIS EARLY STAGE IN THE CAMPAIGN, IT SEEMS LIKELY THAT NEITHER THE LIBERALS NOR THE TORIES WILL WIN A MAJORITY OF THE SEATS IN THE HOUSE OF COMMONS. THUS, DEPENDING ON THE PARLIAMENTARY ARITHMETIC, EITHER THE NEW DEMOCRATIC PARTY OR THE SOCIAL CREDIT PARTY WILL HOLD THE BALANCE OF POWER IN CANADA'S 30TH PARLIAMENT.

2. IF THE NEW DEMOCRATS HOLD THE BALANCE AGAIN, PARTY LEADER DAVID LEWIS CAN BE EXPECTED TO PURSUE APPROXIMATELY THE SAME

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COURSE HE DID OVER THE PAST 38 MONTHS; PRESSING THE MINORITY GOVERNMENT FOR CONCESSIONS ON MATTERS OF IMPORTANCE TO THE PARTY'S SUPPORTERS.

THE QUEBEC-BASED SOCIAL CREDIT PARTY WAS INSTRUMENTAL IN KEEPING LESTER PEARSON'S MINORITY ADMINISTRATIONS AFLOAT DURING THE 1960S AND PARTY LEADER REAL CAOUETTE WOULD PROBABLY THROW HIS SUPPORT BEHIND THE LIBERALS AGAIN. WHEN THE PARTY BEGAN DURING THE DEPRESSION, IT ADVOCATED INCREASED MONEY SUPPLIES AND UNLIMITED CREDIT FOR EVERYONE AT LOW OR NON-EXISTENT INTEREST RATES.

ALTHOUGH THESE AND OTHER UNORTHODOX ECONOMIC THEORIES ARE STILL A PROMINENT PART OF THE SOCIAL CREDIT PROGRAM, IN PRACTICE THE PARTY'S MPS ARE MORE CONCERNED WITH LOCAL PROBLEMS (E.G. PORK BARREL TYPE LEGISLATION).

THE POLITICAL FUTURE OF BOTH TRUDEAU AND TORY LEADER ROBERT STANFIELD WILL BE RIDING ON THE RESULTS OF THE JULY BALLOTTING. IF THE LIBERALS ARE UNABLE TO BETTER THEIR 1972 PERFORMANCE, TRUDEAU IS SURE TO BE HELD RESPONSIBLE BY MANY PARTY REGULARS. HE WOULD BECOME THE TARGET OF A GROWING NUMBER OF CRITICS DEMANDING

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A LEADERSHIP CHANGE IN HOPES OF IMPROVING THE PARTY'S ELECTORAL FORTUNES. UNDER SUCH CIRCUMSTANCES, TRUDEAU MIGHT PREFER NOT TO LEAD ANOTHER MINORITY GOVERNMENT. IF HE SHOULD RESIGN OR OTHERWISE LEAVE OFFICE EARLY, A ~~RESIGNING~~ LEADERSHIP CONVENTION IS LIKELY TO ENSURE.

THIS WILL BE STANFIELD'S THIRD--AND BEST--CHANCE TO LEAD HIS PARTY TO VICTORY. STANFIELD FINALLY SEEMS TO HAVE PATCHED UP THE DIFFERENCES THAT SPLIT THE TORIES FOLLOWING THE QUITTER OF JOHNSON DIEFENBAKER FROM THE PARTY'S LEADERSHIP IN 1968. THE TORIES ARE COMING TO THE ELECTION FRESH FROM THEIR ANNUAL CONVENTION WHERE THEY ENTHUSIASTICALLY DEMONSTRATED THEIR SUPPORT FOR STANFIELD AND APPROVED AN ATTRACTIVE SET OF POLICIES ON WHICH THE PARTY WILL BASE ITS CAMPAIGN. IF STANFIELD LOSES AGAIN, HE IS LIKELY TO RESIGN FROM OR BE PUSHED OUT OF HIS POSITION AS

4 PARTY LEADER.

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